Network Rail Infrastructure Limited

Interim financial statements

Six months ended 30 September 2007

Contents

Financial highlights

	Unaudited six months ended 30 September 2007 £m	Unaudited six months ended 30 September 2006 £m
Revenue	**2,984**	2,884
Operating profit	**1,220**	1,199
Profit before taxation	**780**	747
Profit after taxation	**591**	523
Net cash from operating activities	**1,687**	1,471
Capital expenditure	**1,723**	1,480
Net debt	**(18,246)**	(17,929)
Net assets	**6,899**	5,134
Railway network fixed assets	**30,063**	27,234
Investment property	**924**	909

Commentary

Network Rail's performance over the past six months demonstrates the increasing strength and stability of the national railway network. As well as maintaining focus on the delivery of a safe, reliable and efficient railway on a daily basis, the company is now able to look to the future – growing the capacity of the railway and creating an even 'greener' railway for customers.

The company has always been very conscious of the fact that the most fundamental thing our customers require is a safe, reliable and efficient rail network. We are pleased to report continuing good progress in the year to date. During the six months, the 'moving annual average' train punctuality rose from 88.1% to 88.7% and we remain on course to hit our target of 90% punctuality before the end of the five year regulatory period in March 2009.

In financial terms, Network Rail's position is now one of real stability. As a result of tight financial control, costs have continued on a downward trend in real terms, and with a stable revenue stream our operating profits have increased from £1,199m to £1,220m for the half year. These profits are reinvested in the network and support our extensive railway investment programme. The company now has a stable financial position which is a real source of strength in planning for the future.

A safe railway for passengers and employees is a fundamental priority for Network Rail and performance in this area remains good, building on the massive improvements of the last five years. The biggest risk factor on the railway is now the abuse of level crossings by road users, and pleasingly in the six month period this has fallen by 4.2% compared to the same period last year.

It was a matter of deep regret that in April this year a Network Rail employee was killed in an incident near Maidenhead. Despite the fact that our workforce safety record is good and improving, and that the workforce Accident Frequency Rate is the lowest it has ever been, such incidents affect the company enormously and underline our belief that the only acceptable level of fatalities is zero.

Whilst overall safety performance is very good, and rail remains the safest form of transport, it is vital that when incidents do occur they are thoroughly investigated and lessons are learned. To this end in August we published the Industry Report into the tragic derailment at Grayrigg in February 2007, in which one train passenger sadly died. In the report, Network Rail accepted full responsibility for what had taken place and set out a series of actions the company was taking to minimise the risks of any repetition of this failure in the future.

A key milestone for the railway industry came in July with the publication by the Department for Transport of the 30 year Rail Strategy, and the accompanying detailed documents covering Government priorities for the period from 2009-14. Similar documents were also published by the Scottish Government.

The strategy was warmly welcomed by Network Rail, and gives the railway industry a much-needed coherent long-term perspective from Government about its view on the future of the network, and the levels of available funding. The company was particularly pleased to see a number of major investment projects included, such as the £5.5bn upgrade of the Thameslink, the Reading bottleneck upgrade and the redevelopment of Birmingham New Street station. All three of these vital projects will deliver huge benefits to rail users across the country.

A few weeks ago, Network Rail provided its formal response to the Government's Strategy when we published our Strategic Business Plan for 2009-14. This detailed plan sets out our vision for a railway which continues to deliver a safe, reliable and efficient service to customers, whilst putting renewed emphasis onto growing the capacity of the network and making rail an even greener form of transport. The Office of Rail Regulation will now review this plan and publish its assessment by February 2008.

Nowhere is the agenda for growing the railway network moving at a faster pace than in Scotland, where a number of major enhancement schemes are planned. The redevelopment of Edinburgh Waverley station is progressing well, and the current tranche of works are well on course for completion by the end of 2007.

In July, Iain Coucher replaced John Armitt as Network Rail's Chief Executive. I would like to pay tribute to the contribution John made, and to wish him well in his new role as Chairman of the Olympic Delivery Authority. Iain Coucher was previously Deputy Chief Executive and is already driving forward the company's agenda for a railway network which delivers on the needs of its customers each and every day.

The Board was further strengthened in September with the appointment of Stephen Russell as a non-executive Director. Stephen was formerly Chief Executive of Boots plc, and brings a wealth of experience of customer service to the existing skills of the Board.

Financial highlights
The company recorded an operating profit of £1,220m (2006: £1,199m), profit before tax of £780m (2006: £747m), and profit after tax of £591m (2006: £523m).

Revenue increased by £100m compared to the corresponding six month period in the previous year. Performance payments added £37m to revenues (2006: £52m).

Operating costs were broadly in line with the corresponding six month period in the previous year at £1,764m. Operating costs before depreciation have increased from £1,167m to £1,198m.

The carrying value of the railway network continues to rise as our investment in our assets continues, and now totals £30,063m.

In terms of cash flow the period under review saw net cash from operating activities reach £1,687m, an increase of £216m on the previous year end. Net debt at 30 September 2007 stood at £18,246m, a decrease of £148m over the six months under review. This is well within our business plan forecasts.

Conclusion
The past six months has been one of continued progress on the delivery of a high-performing railway. Train punctuality continues to improve, safety performance remains strong, as is the company's financial position.

This gives the company strong foundations for the future. Our Strategic Plan to build a better railway is now published and Network Rail is well placed to work with our industry partners to deliver the growing, greener railway that the country wishes to see.

Ian McAllister

Ian McAllister
Chairman
23 November 2007

Independent review report

to Network Rail Infrastructure Limited

Introduction

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2007 which comprises the consolidated income statement, the consolidated statement of total recognised income and expense, the consolidated balance sheet, the consolidated cash flow statement and related notes 1 to 11. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with International Standard on Review Engagements 2410 issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the company those matters we are required to state to them in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our review work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

As disclosed in note 1, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting," as adopted by the European Union.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants, London
23 November 2007

Consolidated income statement

	Notes	Unaudited six months ended 30 September 2007 £m	Unaudited six months ended 30 September 2006 £m	Audited year ended 31 March 2007 £m
Revenue	2	**2,984**	2,884	5,795
Operating costs	3	**(1,764)**	(1,685)	(3,517)
Operating profit		**1,220**	1,199	2,278
Revaluation (losses)/ gains and profits on disposal of properties		**(12)**	32	102
Total profit from operations		**1,208**	1,231	2,380
Investment revenues	4	**153**	26	230
Finance costs	4	**(581)**	(510)	(1,132)
Profit before tax		**780**	747	1,478
Tax	5	**(189)**	(224)	(443)
Profit after tax for the period		**591**	523	1,035

All amounts in the current and prior periods relate to continuing activities.

Consolidated statement of recognised income and expense

	Unaudited six months ended 30 September 2007 £m	Unaudited six months ended 30 September 2006 £m	Audited year ended 31 March 2007 £m
Recognised income and expense in the year			
Gains on revaluation of the railway network	**620**	297	73
Losses on cash flow hedges	**(21)**	(173)	(183)
Exchange differences on retranslation of foreign currency debt taken to hedging reserve	**15**	241	351
	(6)	68	168
Actuarial gains / (losses) on defined benefit pension schemes	**110**	(10)	122
Tax on items taken directly to equity	**(73)**	(108)	(106)
Net income recognised directly in equity	**651**	247	257
Transfers			
Transferred to income statement on sale of hedging instruments	**(2)**	-	-
Transferred to income statement on cash flow hedges	**2**	2	4
Tax on items transferred from equity	**(1)**	(1)	(1)
	(1)	1	3
Profit for the period	**591**	523	1,035
Total recognised income and expense for the period attributable to equity shareholders	**1,241**	771	1,295

Consolidated balance sheet

	Notes	Unaudited 30 September 2007 £m	Unaudited 30 September 2006 £m	Audited 31 March 2007 £m
Assets				
Non-current assets				
Intangible assets		**75**	76	75
Property, plant and equipment – the railway network	6	**30,063**	27,234	28,304
Investment property		**924**	909	948
Investments		**-**	142	-
Loan to immediate parent company		**354**	337	348
Derivative financial instruments		**65**	21	41
Finance lease receivables		**14**	19	16
Total financial assets		**433**	519	405
		31,495	28,738	29,732
Current assets				
Inventories		**55**	57	49
Finance lease receivables		**3**	2	3
Trade and other receivables		**670**	790	626
Derivative financial instruments		**-**	9	1
Held-to-maturity investments		**395**	-	-
Cash and cash equivalents		**1,393**	703	193
		2,516	1,561	872
Total assets		**34,011**	30,299	30,604
Current liabilities				
Trade and other payables		**(2,698)**	(2,619)	(2,210)
Bank overdrafts and loans	7	**(2,606)**	(2,744)	(2,862)
Derivative financial instruments		**(212)**	-	(105)
Short-term provisions		**(15)**	(27)	(15)
		(5,531)	(5,390)	(5,192)
Net current liabilities		**(3,015)**	(3,829)	(4,320)
Non-current liabilities				
Bank loans and debt issued	7	**(17,418)**	(16,020)	(15,715)
Derivative financial instruments		**(191)**	(194)	(199)
Other payables		**(1,123)**	(951)	(1,129)
Retirement benefit obligation		**(139)**	(369)	(248)
Deferred tax liabilities		**(2,688)**	(2,224)	(2,435)
Long term provisions		**(12)**	(7)	(18)
Obligations under finance leases		**(10)**	(10)	(10)
		(21,581)	(19,775)	(19,754)
Total liabilities		**(27,112)**	(25,165)	(24,946)
Net assets		**6,899**	5,134	5,658

Consolidated balance sheet continued:

	Notes	Unaudited 30 September 2007 £m	Unaudited 30 September 2006 £m	Audited 31 March 2007 £m
Equity				
Share capital		**160**	160	160
Share premium account		**85**	85	85
Revaluation reserves		**4,735**	4,543	4,247
Other reserve		**1,458**	1,451	1,451
Hedging reserve		**(64)**	(128)	(57)
Retained earnings		**525**	(977)	(228)
Total shareholders' funds and equity attributable to equity holders of the parent company		**6,899**	5,134	5,658

This interim financial report was approved by the Board of Directors on 23 November 2007.

It was signed on its behalf by:

Iain Coucher (Director)

Ron Henderson (Director)

Consolidated cash flow statement

	Note	Unaudited six months ended 30 September 2007 £m	Unaudited six months ended 30 September 2006 £m	Audited year ended 31 March 2007 £m
Net cash generated from operating activities	8	**1,687**	1,471	2,428
Investing activities				
Interest received		**23**	15	71
Purchases of property, plant and equipment – the railway network		**(1,677)**	(1,447)	(3,256)
Proceeds on disposal of property, plant and equipment – the railway network		**14**	18	51
Capital grants received		**146**	38	169
Capital element of finance leases' receipts		**2**	-	3
(Purchases) / proceeds on disposal of investments		**(395)**	19	161
Net cash used in investing activities		**(1,887)**	(1,357)	(2,801)
Financing activities				
Repayment of borrowings		**(2,316)**	(3,091)	(9,900)
New loans raised		**3,716**	3,649	10,435
Net cash generated from financing activities		**1,400**	558	535
Net increase in cash and cash equivalents		**1,200**	672	162
Cash and cash equivalents at beginning of the period		**193**	31	31
Cash and cash equivalents at the end of the period		**1,393**	703	193

Notes to the interim financial statements

Six months ended 30 September 2007

1. General information

The information contained in this report for the year ended 31 March 2007 does not constitute statutory accounts as defined in section 240 of the Companies Act 1985. A copy of the statutory accounts for that year, which were prepared under IFRS, has been delivered to the Registrar of Companies. The auditors' report on those accounts was not qualified and did not contain statements under Section 237 (2) or (3) of the Companies Act 1985.

Accounting policies

This interim financial report has been prepared in accordance with IFRSs, including IAS 34 "Interim Financial Reporting". The accounting policies and methods of computation used in this interim report are consistent with those used in the most recent annual report and accounts. A copy of this document is available on the Company's website: www.networkrail.co.uk.

Business segments

No segmental analysis is provided because the Company operates one class of business, that of managing the national rail infrastructure and undertakes that class of business in one geographical segment, Great Britain.

2. Revenue

	Unaudited six months ended 30 September 2007 £m	Unaudited six months ended 30 September 2006 £m	Audited year ended 31 March 2007 £m
Passenger franchise revenue	**1,446**	1,395	2,206
Revenue grants	**1,346**	1,313	3,227
Freight revenue	**44**	48	95
Property rental income	**112**	99	206
Other income	**36**	29	61
	2,984	2,884	5,795

The effect of the performance regimes on the results of the Group was net income of £37m (six months to 30 September 2006: net income of £52m).

3. Operating costs

	Unaudited six months ended 30 September 2007 £m	Unaudited six months ended 30 September 2006 £m	Audited year ended 31 March 2007 £m
Employee costs	**749**	687	1,401
Own costs capitalised	**(320)**	(213)	(482)
Other external charges (including infrastructure maintenance costs)	**846**	761	1,691
Other operating income	**(77)**	(68)	(148)
Operating costs before depreciation	**1,198**	1,167	2,462
Depreciation and other amounts written off non-current assets	**584**	534	1,086
Capital grants amortised	**(18)**	(16)	(31)
Total operating costs	**1,764**	1,685	3,517

4. Investment revenue and finance costs

	Unaudited six months ended 30 September 2007 £m	Unaudited six months ended 30 September 2006 £m	Audited year ended 31 March 2007 £m
Investment revenue			
Interest receivable on investments and deposits	**43**	16	50
Gain on disposal of hedges	**8**	-	-
Expected return on assets less interest on liabilities in respect of defined benefit pension scheme	**10**	10	17
Total finance income before remeasurements	**61**	26	67
Remeasurements (see below)	**92**	-	163
	153	26	230
Finance costs			
Interest payable on debt	**(552)**	(494)	(1,019)
Total borrowing costs	**(552)**	(494)	(1,019)
Less: amounts included in the cost of qualifying assets	**46**	38	75
Total finance costs before remeasurements	**(506)**	(456)	(944)
Remeasurements (see below)	**(75)**	(54)	(188)
	(581)	(510)	(1,132)

Remeasurements

Gains arising from ineffective portion of cash flow hedges	**7**	-	35
Losses arising from ineffective portion of cash flow hedges	**(1)**	(35)	(49)
Fair value losses on interest rate swaps transferred from equity	**(2)**	-	(4)
Profit/ (loss) arising from cash flow hedge accounting	**4**	(35)	(18)
Increase in fair value of fair value hedges	**23**	-	-
Increase in fair value of fair value hedged debt	**(23)**	-	-
Decrease in fair value of fair value hedged debt	**43**	-	85
Decrease in fair value of fair value hedges	**(44)**	-	(85)
Loss arising from fair value hedge accounting	**(1)**	-	-
Increase in fair value of derivatives not hedge accounted	**14**	-	2
Increase in fair value of non hedge accounted debt	**(1)**	-	-
Decrease in fair value of non hedge accounted debt	**5**	-	20
Decrease in fair value of derivatives not hedge accounted	**(4)**	(18)	(50)
Exchange differences on retranslation of foreign currency debt taken directly to income statement	**-**	(1)	21
Profit/ (loss) arising from non-hedge accounting	**14**	(19)	(7)
Total income arising from remeasurements	**92**	-	163
Total costs arising from remeasurements	**(75)**	(54)	(188)
Net profit/ (loss) arising from remeasurements	**17**	(54)	(25)

5. Tax

	Unaudited six months ended 30 September 2007 £m	Unaudited six months ended 30 September 2006 £m	Audited year ended 31 March 2007 £m
Current tax:			
Current UK Corporation Tax at 30%:	**12**	8	11
ACT set-off	**(8)**	(5)	(7)
Corporation tax liability	**4**	3	4
Group relief payable	**4**	-	6
Total current tax	**8**	3	10
Deferred tax:			
Deferred tax at 30%:			
Current year charge	**211**	221	424
Credit due to reduction in future corporation tax rate	**(30)**	-	-
Prior year charge	**-**	-	9
Total deferred tax	**181**	221	433
Total tax	**189**	224	443

The total tax rate in the interim period is 24.2%, representing the best estimate of the effective tax rate expected for the full financial year of 28.1% (2006/07: 30%) and the full recognition of the tax rate change as shown above.

The rate used for the purposes of deferred tax in these accounts is 28% (2006/07: 30%) as this is the rate substantively enacted at the balance sheet date and the rate at which the temporary differences are expected to reverse. It applies from 1 April 2008. The change in rate has been fully recognised in these accounts and not proportionately to the year.

The March 2007 budget proposals in respect of changes to industrial buildings allowances were not substantively enacted at the balance sheet date and have not been recognised in these accounts. Based on the estimated temporary differences at 31 March 2008, this change would increase the deferred tax liability by approximately £382m.

6. Property, plant and equipment – the railway network

	Group £m
Valuation	
At 1 April 2006	25,991
Additions	3,326
Depreciation charge for the year	(1,086)
Revaluation in the year	73
At 31 March 2007	**28,304**
Additions	**1,723**
Depreciation charge for the period	**(584)**
Revaluation in the period	**620**
At 30 September 2007	**30,063**

The Group has chosen the railway network fixed asset valuation at 1 April 2002 to be the deemed cost of the network. This was the date of implementation of depreciated replacement cost accounting for railway network fixed assets under UK GAAP and from that date the Group has maintained appropriate accounting records to enable it to undertake accounting for fixed assets on an IFRS compliant basis.

7. Bank overdrafts and loans

	Unaudited 30 September 2007 £m	Unaudited 30 September 2006 £m	Audited 31 March 2007 £m
Bank loans and overdrafts	**1,561**	1,138	1,482
Bonds issued under the Debt Issuance Programme (less unamortised discount and fees)	**13,424**	10,050	10,794
Debt issued under Medium Term Note Programme (less unamortised discount and fees)	**4,839**	5,713	4,826
Commercial paper	**-**	1,648	1,260
Kreditanstalt fur Wiederaufbau facility	**200**	215	215
	20,024	18,764	18,577

The borrowings are repayable as follows:

On demand or due within one year	**2,606**	2,744	2,862
Due within one to two years	**4,107**	1,950	4,722
Due within two to five years	**3,316**	7,084	3,051
Due in more than five years	**9,995**	6,986	7,942
	20,024	18,764	18,577
Less: amounts repayable within one year (shown under current liabilities):			
Bank loans and overdrafts	**(169)**	(7)	(100)
Bonds issued under Debt Issuance Programme (less unamortised discount and fees)	**(1,383)**	(27)	(399)
Debt issued under Medium Term Note Programme (less unamortised discount and fees)	**(854)**	(847)	(888)
Commercial paper	**-**	(1,648)	(1,260)
Kreditanstalt fur Wiederaufbau facility	**(200)**	(215)	(215)
Amounts repayable within one year	**(2,606)**	(2,744)	(2,862)
Amounts repayable after more than one year	**17,418**	16,020	15,715

All borrowings are denominated in or swapped into sterling.

7. Bank overdrafts and loans continued

Bonds issued under the Debt Issuance Programme are analysed as follows*:

	Unaudited 30 September 2007 £m	Unaudited 30 September 2006 £m	Audited 31 March 2007 £m
1.125% Sterling index linked bond due 2047	497	-	-
0% Sterling index linked bond due 2047	60	-	-
1.5646% Sterling index linked bond due 2044	212	204	207
1.2219% Sterling index linked bond due 2040	211	204	207
4.6535% Sterling bond due 2038	100	-	-
1.375% Sterling index linked bond due 2037	995	-	-
7.05% US Dollar bond due 2036	11	13	13
6.91% US Dollar bond due 2036	11	13	13
4.75% Sterling bond due 2035	1,221	1,219	1,220
1.6492% Sterling index linked bond due 2035	322	309	315
4.375% Sterling bond due 2030	869	868	868
1.75% Sterling index linked bond due 2027	998	-	-
4.615% Norwegian Krone bond due 2026	40	43	40
4.57% Norwegian Krone bond due 2026	11	12	11
1.9618% Sterling index linked bond due 2025	270	260	264
4.75% Sterling bond due 2024	721	720	720
4.3775% Sterling bond due 2023	200	200	200
2.15% Japanese Yen bond due 2021	43	-	43
2.76% Swiss Franc bond due 2021	115	-	123
2.315% Japanese Yen bond due 2021	44	46	45
2.28% Japanese Yen bond due 2021	44	45	43
4.625% Sterling bond due 2020	996	995	995
5.0575% US Dollar bond due 2017	23	-	24
6% Australian Dollar bond due 2016	207	-	202
4.40% Canadian Dollar due 2016	238	242	219
9.1%xN/D US Dollar bond due 2016	-	27	-
4.875% Sterling bond due 2015	989	988	988
5.25% US Dollar bond due 2011	499	541	515
4.375% Sterling bond due 2011	447	446	446
5.50% Australian Dollar bond due 2010	367	339	349
5.125% Sterling bond due 2010	499	-	498
3.875% US Dollar bond due 2009	488	533	507
4.875% US Dollar bond due 2009	616	667	636
4.125% US Dollar bond due 2008	610	667	634
4.46% Sterling bond due 2008	50	50	50
4.50% Sterling bond due 2008	400	399	399
	13,424	10,050	10,794

*Amounts are shown net of unamortised discount and fees.

7. Bank overdrafts and loans continued

Debt issued under the Medium Term Note programme is analysed as follows*:

	Unaudited 30 September 2007 £m	Unaudited 30 September 2006 £m	Audited 31 March 2007 £m
3 1/8% Euro medium term note due 2009	**1,739**	1,689	1,694
4 7/8% Sterling medium term note due 2009	**2,246**	2,243	2,244
2 5/8% US Dollar medium term note due 2008	**244**	267	254
2 5/8% US Dollar medium term note due 2008	**610**	667	634
Floating rate Euro medium term note due 2007	**-**	847	-
	4,839	5,713	4,826

*Amounts are shown net of unamortised discount and fees.

Bank loans and overdrafts are analysed as follows:

	Unaudited 30 September 2007 £m	Unaudited 30 September 2006 £m	Audited 31 March 2007 £m
Index-linked European Investment Bank due 2037	**361**	-	353
HSBC Bank due 2019 repayable by instalments	**206**	210	206
Barclays Bank due 2017 repayable by instalments	**57**	55	55
Royal Bank of Scotland due 2017 repayable by instalments	**68**	66	68
5.57% European Investment Bank due 2013	**200**	200	200
5.77% European Investment Bank due 2012	**300**	300	300
6.42% European Investment Bank due 2011	**100**	100	100
6.42% European Investment Bank due 2009	**100**	100	100
European Investment Bank due 2007	**100**	100	100
Money market borrowings due 2007	**50**	-	-
Overdrafts	**19**	7	-
	1,561	1,138	1,482

8. Notes to the cash flow statement

	Unaudited six months ended 30 September 2007 £m	Unaudited six months ended 30 September 2006 £m	Audited year ended 31 March 2007 £m
Operating profit	**1,220**	1,199	2,278
Adjustments for:			
Depreciation of the railway network	**584**	534	1,086
Amortisation of capital grants	**(18)**	(16)	(31)
Amortisation of intangible assets	**-**	1	2
Decrease in provisions	**(6)**	(5)	(6)
Operating cash flows before movements in working capital	**1,780**	1,713	3,329
Increase in inventories	**(6)**	(13)	(5)
Increase in receivables	**(20)**	(341)	(199)
Increase in payables	**134**	215	125
Cash generated from operations	**1,888**	1,574	3,250
Income taxes paid	**(2)**	-	-
Interest paid	**(199)**	(103)	(822)
Net cash generated from operating activities	**1,687**	1,471	2,428

Cash and cash equivalents (which are represented as a single class of assets on the face of the balance sheet) comprise cash at bank and money market deposit investments with a maturity of up to three months.

9. Analysis of changes in net debt

	At 1 April 2007 £m	Cash flows £m	Non cash movements £m	Capital accretion £m	Amortisation of discount £m	Fair value remeasurements £m	Foreign exchange differences £m	At 30 September 2007 £m
Cash and cash equivalents	193	1,199	-	-	1	-	-	**1,393**
Borrowings due within one year	(2,862)	1,218	(1,008)	-	(13)	-	59	**(2,606)**
Borrowings due after one year	(15,715)	(2,618)	1,008	(65)	(7)	23	(44)	**(17,418)**
Obligations under finance leases	(10)	-	-	-	-	-	-	**(10)**
Held-to-maturity investments	-	395	-	-	-	-	-	**395**
	(18,394)	194	-	(65)	(19)	23	15	**(18,246)**

	At 1 October 2006 £m	Cash flows £m	Non cash movements £m	Capital accretion £m	Amortisation of discount £m	Fair value remeasurements £m	Foreign exchange differences £m	At 31 March 2007 £m
Cash and cash equivalents	703	(510)	-	-	-	-	-	**193**
Borrowings due within one year	(2,744)	1,266	(1,502)	-	(30)	-	148	**(2,862)**
Borrowings due after one year	(16,020)	(1,243)	1,495	(26)	(10)	105	(16)	**(15,715)**
Obligations under finance leases	(10)	-	-	-	-	-	-	**(10)**
Held-to-maturity investments	142	(142)	-	-	-	-	-	**-**
	(17,929)	(629)	(7)	(26)	(40)	105	132	**(18,394)**

	At 1 April 2006 £m	Cash flows £m	Non cash movements £m	Capital accretion £m	Amortisation of discount £m	Fair value remeasurements £m	Foreign exchange differences £m	At 30 September 2006 £m
Cash and cash equivalents	31	672	-	-	-	-	-	**703**
Borrowings due within one year	(4,186)	1,467	-	-	(50)	-	25	**(2,744)**
Borrowings due after one year	(14,197)	(2,025)	-	(10)	(3)	-	215	**(16,020)**
Obligations under finance leases	(10)	-	-	-	-	-	-	**(10)**
Held-to-maturity investments	161	(19)	-	-	-	-	-	**142**
	(18,201)	95	-	(10)	(53)	-	240	**(17,929)**

10. Contingent liabilities

Provision has been made for the Directors' best estimate of the known claims, investigations and legal actions in progress.

11. Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

The Company’s ultimate parent company and controlling entity is Network Rail Limited, a company limited by guarantee without shares. The Company’s immediate parent company is Network Rail Holdco Limited.